

# PHILIPPINE INDUSTRIAL MARKET SPOTLIGHT

## ECONOMIC OVERVIEW

The simultaneous impacts of the novel coronavirus disease 2019 (COVID-19) pandemic to various economic sectors including domestic spending, tourism, remittances, and external trade, among others, halted the Philippines' promising economic growth momentum which is among Asia Pacific's fastest in the pre-COVID 19 era. While majority of the businesses have since been allowed to operate (albeit with health protocols in place) under the "new normal", the imposition of stringent community quarantine measures forced Gross Domestic Product (GDP) growth to contract during the first three quarters of 2020. Whilst the Q3 2020 contraction of -11.5% YoY is not as severe as -16.9% YoY recorded in Q2 2020, economic slowdown is expected to persist in the medium-term due the slow recovery of consumer confidence amid high unemployment and growth uncertainties on a global scale.

## MARKET PERFORMANCE

Bolstered by increased requirements for warehouse facilities to cater to essential industries and e-commerce companies, the industrial segment withstands the disturbances in the manufacturing and export sectors particularly in the semiconductors and electronics industry. While the aforementioned disturbances kept vacancy rates at healthy levels, the continued disruptions to the global supply chain hold-off sharp increases in rental rates of standard built facilities (SFBs).

## OUTLOOK

Asking rents are expected to buck the trend and grow at an annual average rate of 5% despite moderate increase in vacancy rates estimated over the mid-term due to continued global supply chain disruptions and shutdown of several manufacturing facilities. Nonetheless, the renewed opportunities brought about by the pandemic in the areas of e-commerce, food and groceries, and other essentials are seen to maintain bright prospects in the industrial segment. The completion of new infrastructure developments in the areas of CALABA (Cavite, Laguna, and Batangas) and Central Luzon will further stir new developments outside Metro Manila. Moreover, the anticipated passage of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) into law is seen to generate positive sentiment among investors, particularly in the electronics export industry. CREATE is expected to boost the country's competitiveness against its ASEAN peers by reducing the corporate income tax (CIT) rate from 30% to 20%.

## PHILIPPINE INDUSTRIAL SNAPSHOT

### KEY STATISTICS

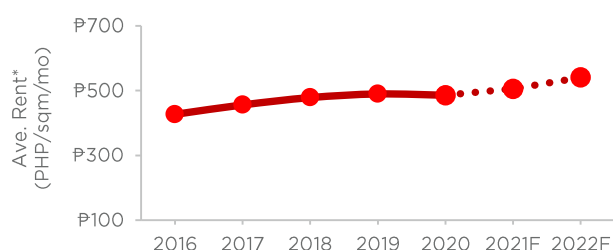
#### Economic Indicators

	Q3 19	Q3 20	12-Month Forecast
GDP Growth	6.3%	-11.5%	▲
GVA in Manufacturing Growth	3.0%	-12.2%	▲
Inflation Rate	1.7%	2.5%	▲
Personal Disposable Income Growth	5%	-12.4%	▲

#### Market Indicators

	Q4 19	Q4 20	12-Month Forecast
Supply (in has)	4,585	4,685	▲
Ave. Selling Price (PHP/sqm.)	PHP 8,000	PHP 8,000	■
No. of Newly Registered Logistics Service Enterprises	16 (H1 2019)	6 (H1 2020)	▲

#### Average Rents (SFBs)



#### Current indicative rents for warehouses and SFBs

	Indicative Rents of SFBs (PHP/sq.m./mo)
Metro Manila	PHP 200 - PHP 700
Subic Bay Freeport Zone	PHP 170 - PHP 250
Clark Freeport Zone	PHP 150 - PHP 260
CALABARZON	PHP 140 - PHP 270
Cebu	PHP 130 - PHP 250
Davao	PHP 160 - PHP 210

#### Notes:

- (1) Supply covers industrial estates in Mega Manila
- (2) Ave. selling price represents selling prices of new industrial lots
- (3) Number of newly registered logistics service enterprises include original, new, and expansion projects
- (4) Rental trend represents average lease rate of SFBs in Metro Manila

Sources: Oxford Economics, Philippine Economic Zone Authority (PEZA), Various developers, Cushman & Wakefield Research

## EVOLUTION OF THE CALABA AND CENTRAL LUZON AREAS AS MAJOR INDUSTRIAL HUBS OF THE PHILIPPINES

Over the past years, the insurgence of the Philippines' industrial segment is focused in the CALABA (located south of Metro Manila) and Central Luzon (north of Metro Manila). The government-owned Cavite Economic Zone or Cavite Export Processing Zone (CEPZ), one of the biggest and pioneering industrial development in the country, was established in the 1980s. The participation of the country's major real estate developers in the development of industrial parks was more active during the last decade. Whereas the early stages of the country's industrial activities were more prominent in the CALABA area, recent expansions by major developers are currently undertaken in Central Luzon due to the presence of new infrastructure developments boosting its linkage with Metro Manila.

### Major Industrial Parks in CALABA and Central Luzon

Industrial Park	Location	Developer
<b>Existing</b>		
Cavite Technopark	Cavite	Ayala Land, Inc.
Laguna Technopark	Laguna	Ayala Land, Inc.
Suntrust Ecotown Tanza	Cavite	Megaworld Corp.
Alviera Industrial Park	Pampanga	Ayala Land, Inc.
Pampanga Technopark	Pampanga	Ayala Land, Inc.
<b>Proposed/Under Construction</b>		
Filinvest Innovation Park	Tarlac	Filinvest Land, Inc.

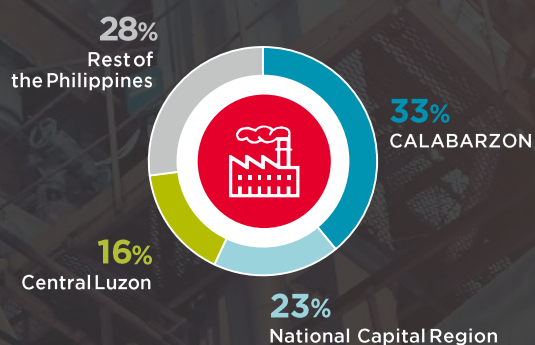
Sources: Various developers, Cushman & Wakefield Research

## THE COUNTRY'S MANUFACTURING AND EXPORTS HUBS

The close proximity of CALABA and Central Luzon to Metro Manila – where the supply of industrial land is deemed scarce – and to the country's major gateways fostered the growth of the major components of the industrial segment, namely manufacturing and external trade.

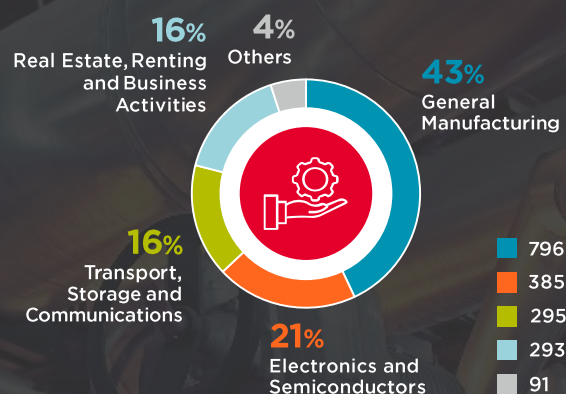
**CALABARZON** has become a dominant manufacturing hub with a 33% share to the total gross value added (GVA) in manufacturing in 2019. Of the total estimated 1,800 Philippine Economic Zone Authority (PEZA) registered enterprises in CALABARZON as of April 2020, 43% are general manufacturing enterprises. These general manufacturing companies engage in Fabricated Metal Products, except Machinery and Equipment (31%), Rubber and Plastic Products (23%), Wearing Apparel (8%), and Motor Vehicles, Trailers and Semi-Trailers (6%). Another dominant player in CALABARZON are electronics and semiconductors industries which account for

### 2019 Percent Distribution of Gross Value Added in Manufacturing



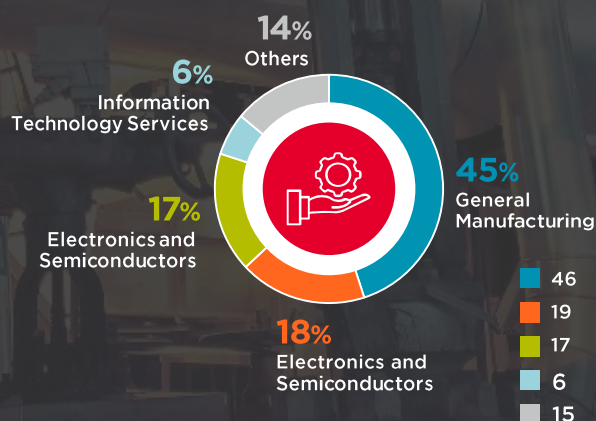
Sources: Philippine Statistics Authority, Cushman & Wakefield Research

### Distribution of PEZA-Registered Enterprises in CALABARZON as of April 2020



Note: CALABARZON – Cavite, Laguna, Batangas, Rizal & Quezon  
Sources: Philippine Economic Zone Authority, Cushman & Wakefield Research

### Distribution of PEZA-Registered Enterprises in CENTRAL LUZON as of April 2020



Sources: Philippine Economic Zone Authority, Cushman & Wakefield Research

21% of PEZA-registered enterprises in the region. These electronics and semiconductors enterprises engage in Radio, Television and Communication Equipment and Apparatus (58%), Electrical Machinery and Apparatus (29%), Medical, Precision and Optical Instruments, Watches and Clocks (7%), and Office, Accounting and Computing Machinery (6%). CALABARZON attracts various foreign locators which include Daiwa Seiko Philippines Corporation, Dyson Electronics Pte. Ltd., Epson Precision Inc., Fuji Electric Philippines Inc., and Samsung Electro-Mechanics Philippines Corporation, among others.

**CENTRAL LUZON** is gaining prominence in electronic products export, the biggest commodity export of the country. The region's electronic products export has registered a YoY growth of 126.3%, amounting at USD 6,300 million in 2019 which accounts for 79% of the region's total commodity exports. The top source of exports in the region is the Clark Freeport Zone (CFZ), home to a number of local and foreign locators including SFA Semicon Philippines Corporation, Foton Motors Philippines Inc., Nanox Philippines Inc., and SMK Electronics Philippines Corp.

#### Top 10 Exports in Central Luzon in 2019

	FOB Value in USD Mn	Percent Share in Regional Exports
<b>Electronic Products</b>	6300	79%
<b>Other Manufactures</b>	371	5%
<b>Machinery &amp; Transport Equipment</b>	201	3%
<b>Chemicals</b>	191	2%
<b>Articles of Apparel and Clothing Accessories</b>	149	2%
<b>Petroleum Products</b>	111	1%
<b>Travel Goods and Handbags</b>	105	1%
<b>Misc. Manufactured Articles, N.E.S.</b>	89	1%
<b>Ignition Wiring Sets</b>	66	1%
<b>Metal Components</b>	59	1%

#### Top 10 Exports in CALABARZON in 2019

	FOB Value in USD Mn	Percent Share in Regional Exports
<b>Electronic Products</b>	1606	63%
<b>Other Manufactures</b>	139	5%
<b>Metal Components</b>	139	5%
<b>Machinery &amp; Transport Equipment</b>	135	5%
<b>Chemicals</b>	125	5%
<b>Petroleum Products</b>	112	4%
<b>Electronic Eqpt. &amp; Parts</b>	78	3%
<b>Processed Food and Beverages</b>	67	3%
<b>Others</b>	53	2%
<b>Misc. Manufactured Articles, N.E.S.</b>	32	1%

Sources: Department of Trade and Industry – Tradeline Philippines, Cushman & Wakefield Research

## INDUSTRIAL BOOST FROM E-COMMERCE

According to Visa's COVID-19 sensor in its Pandemic Response Report<sup>1</sup>, a survey conducted in mid-April 2020 revealed that 59% believe in the convenience of shopping online than in physical stores during the quarantine period while 44% think that their online purchases in the coming months would be higher compared to the previous months. As e-commerce

has become a massive trend in the Philippines, evident by its accelerated growth in response to the COVID-19 crisis, the country's major industrial belts are presented with further opportunities, specifically in the areas of logistics and warehousing. CALABA, in particular, has become a preferred location to the country's largest e-commerce platforms, LAZADA and Shopee, both with existing facilities in Laguna. Lazada chose Laguna as the site of its biggest warehouse in Southeast Asia – a 54,000 sq.m fourth

<sup>1</sup> Visa. (2020, May 27). "The new normal" Pandemic response and business continuity tips. Retrieved from <https://www.visa.com.ph/dam/VCOM/regional/ap/philippines/global-elements/documents/pandemic-response-report-ph-final-as-of-27-may.pdf>



generation facility while the company is also eyeing for a bigger fifth-generation warehouse in Clark, Pampanga.

## THE ROLE OF INFRASTRUCTURE

Among the contributing factors that fuel the rise of both regions as the country's major industrial hubs are their accessibility to the major airports and seaports to serve industrial locators. CALABARZON hosts the Cavite Gateway Terminal and the Port of Batangas, major gateways of international trade in the region, while it is also accessible to Ninoy Aquino International Airport. Similarly, Central Luzon hosts the Clark International Airport which is Luzon's second main airway and the Subic Seaport which is among the largest importation port in the country.

### On-going Infrastructure Developments in Central Luzon

Project	Description
Subic-Clark Railway	A 71.13-kilometer rail line which will link Subic Bay Freeport Zone and Clark Freeport Zone
North-South Commuter Railway	A commuter rail which will connect Metro Manila to Clark.
NCC access roads	Access roads from New Clark City (NCC) to Clark International Airport and Subic-Clark-Tarlac Expressway (SCTEX)

Sources: Department of Transportation, Bases Conversion and Development Authority, Cushman & Wakefield Research

## MARKET OPPORTUNITIES AMIDST THE PANDEMIC

The COVID-19 crisis presents positive development to the country's industrial segment. Notwithstanding the effects of the global supply chain disruptions and constrained business operations as the pandemic further progresses, the segment establishes resiliency with the upsurge in demand from e-commerce and essential industries. Other than manufacturing and export-oriented companies, industries that are seen to boost future demand for industrial properties include

e-commerce, food & beverages (F&B), pharmaceuticals, and other household essentials. Industrial players are seen to benefit from investing in high-quality, investment-grade facilities, and automated warehouse systems that will enhance efficiency in supply chain management.

In the latest [APAC Cold Storage Logistics](#) report, Cushman and Wakefield also reiterates the growing importance of cold chain logistics industry and cold storage logistics warehousing especially to accommodate the pandemic-induced preference towards online shopping, the anticipated surge in demand from drug and vaccine imports/exports, and increased demand from grocery market.

Even after the COVID-19 crisis, the opportunities in cold chain logistics market is seen to be sustained by the growing middle class and promising economic development in the Asia-Pacific region. In the Philippines, international research firm The Institute of Grocery Distribution and IGD Services (IGD) forecasts the country's grocery market to exhibit a CAGR of 8.90% from 2018 to 2023.<sup>2</sup> Moreover, the anticipated mass vaccination program against COVID-19 also entails large-scale demand for cold storage warehouses. Presently, the cold storage capacity in the Asia-Pacific is still very limited as compared to United States and Europe. As noted in the 2018 GCCA Global Cold Storage Capacity report<sup>3</sup>, while the cold storage capacity in the United States stood at 0.490 cubic metres per urban resident and in Great Britain at 0.441 cubic metres per urban resident, the highest in Asia Pacific (Japan) stood at only 0.315 cubic metres per urban resident. In the Philippines, the capacity is even lower as compared to its Asian peers at only 0.037 cubic metres per urban resident. As urbanization and creation of new urban centers is rapidly growing, it creates more room for investment opportunities in cold storage market in the country.

<sup>2</sup> IGD. (2019, April 15). Asian grocery to be worth US\$4264 billion by 2023. Retrieved from <https://www.igd.com/articles/article-viewer/t/igd-asian-grocery-to-be-worth-us4264-billion-by-2023/t/21432#:~:text=IGD%20predicts%20the%20top%20five,CAGR%20of%206%25%20until%202023>.

<sup>3</sup> Global Cold Chain Alliance. (2018). 2018 GCCA Global Cold Storage Capacity Report. Retrieved from <https://www.gcca.org/sites/default/files/2018%20GCCA%20Cold%20Storage%20Capacity%20Report%20final.pdf>.

For more information on the report, please contact:



**CLARO CORDERO, JR.**

Director  
Research, Consulting & Advisory Services  
[Claro.Cordero@cushwake.com](mailto:Claro.Cordero@cushwake.com)  
Contact: +63 998 518 5158



**JOSIERY GRACE ABAS**

Analyst  
Research, Consulting & Advisory Services  
[JosieryGrace.Abas@cushwake.com](mailto:JosieryGrace.Abas@cushwake.com)



**LEO AMADEUS RUIZ**

Analyst  
Tenant Advisory Group  
[Leo.Ruiz@cushwake.com](mailto:Leo.Ruiz@cushwake.com)

**CUSHMAN & WAKEFIELD PHILS., INC.**

11th Floor, Ecotower, 32nd Street corner 9th Avenue  
Bonifacio Global City, Taguig City  
Metro Manila, Philippines 1630

## About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services.

To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.